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November 14, 2007

AGENDA ITEM 8

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** 2007 Second Quarter Self-Funded Health Plans Financial Report
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. INTRODUCTION:**

The purpose of this report is to provide the CalPERS Board of Administration (Board) with an update on the status of the financial reserves for the self-funded health plans. This report covers the second calendar quarter ending June 30, 2007.

The financial position of the self-funded health plans remains strong. The medical and pharmacy claims 12 month cost trend continues to show an overall steady decline for the second quarter of 2007. The ongoing positive financial results for the program assets provide assurance that the rates approved by the Board for the 2007 plan year were sufficient to fund benefits and to maintain adequate reserves.

V. ANALYSIS:

Anticipated Experience Due to Reserve Draw-down

At the direction of the Board, a portion of the excess reserves were used to reduce the 2005 and 2006 premiums. As a direct result, the loss ratio for this period was expected to exceed 100 percent (break-even point). At the end of the second quarter of 2007, the overall loss ratio combined for the self-funded health plans was 98 percent. This resulted in an overall underwriting gain of \$11.5 million between the four self-funded health plans. The second quarter produced results better than expected taking into consideration that the second year of the draw-down of reserves has been completed. The gain is the result of the continuing lower than expected trend in the medical and pharmacy claims costs for all four self-funded health plans.

Assets above the actuarial reserve requirements for the second quarter 2007 were \$288 million, an increase over the first quarter 2007 of \$85.6 million. This increase was due to several factors, including better than expected claims cost trends, better rebates relating to the new pharmacy contract, and better investment returns.

The following attachments provide more detailed financial and trend information:

Attachment 1

This attachment displays summary results for the second quarter 2006 and 2007 as well as the prior two years. The two basic plans continue to show underwriting gains while the Supplement to Medicare plans are showing small underwriting losses.

The most notable development is that the 12-month rolling trend for both medical and pharmacy is continuing to show a low cost trend for all four self-funded health plans.

Attachment 2

This attachment presents the per-member-per-month (PMPM) medical and pharmacy claims costs for five quarters beginning with the second quarter of 2006.

The year-to-year medical PMPM costs show expected increases for all four self-funded health plans with PERSCare Basic plan with a low of 11 percent and PERS Choice Supplement to Medicare plan at a high of 18 percent. This was expected due to the Medicare effect where Supplemental to Medicare plans generally experience their highest claim volume early in the year as Medicare deductibles are paid for by the Supplemental plans.

It should be noted that year-to-year pharmacy claims are showing trends at zero or close to it. The PERS Choice basic plan shows a small increase of .2 percent, while the other three self-funded health plans are showing decreases of between 4 and 6 percent. It needs to be noted that these trends are claims cost only and do not include rebates.

Attachment 3

This attachment presents asset values, reserves and asset changes for the self-funded health plans.

As of June 30, 2007, total Program assets (line 15) exceeded the actuarial reserve (line 17) by over \$288 million. The excess in assets less reserves increased by \$85.6 million over the first quarter, which shows that surpluses are being generated because of the lower than expected claims cost trends and better pharmacy rebates. Overall all four self-funded health plans asset level continues to be positive.

Attachment 4

This attachment highlights the relative strength of the assets compared to the actuarial reserve. The overall level of the assets in the self-funded health plans remains strong.

Attachment 5

This attachment shows the overall enrollment trend for the four self-funded health plans.

The PERSCare Basic plan enrollment continues to decline, which places this plan at a greater risk of volatility. Because of the small number of total covered lives in this plan (21,690 as of June 30, 2007 which is a year-to-year decrease of 1,876 members), a catastrophic case can have a significant adverse financial impact.

Even though the PERSCare Basic plan's financial situation remains strong at this time, staffs, working with actuarial consultants, continue to monitor the financial performance of all plans, placing special emphasis on PERSCare Basic Plan.

VI. STRATEGIC PLAN:

This directly relates to Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

There is no cost associated with this item.

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Attachments